

AUDIT REPORT

TOWN OF KEOTA, OKLAHOMA

JUNE 30, 2014



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

TOWN OF KEOTA, OKLAHOMA
JUNE 30, 2014

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| INTRODUCTORY SECTION: | |
| LIST OF ELECTED OFFICIALS | 4 |
| FINANCIAL SECTION: | |
| INDEPENDENT AUDITOR'S REPORT | 5-7 |
| BASIC FINANCIAL STATEMENTS: | |
| Government-Wide Financial Statements: | |
| EXHIBIT A STATEMENT OF NET POSITION - MODIFIED CASH BASIS | 8 |
| EXHIBIT B STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS | 9 |
| FUND FINANCIAL STATEMENTS: | |
| EXHIBIT C BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS | 10 |
| EXHIBIT D STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS | 11-12 |
| EXHIBIT E STATEMENT OF NET POSITION - PROPRIETARY FUND - MODIFIED CASH BASIS | 13 |
| EXHIBIT F STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND - MODIFIED CASH BASIS | 14 |
| EXHIBIT G STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS | 15 |
| NOTES TO THE FINANCIAL STATEMENTS | 16-34 |

TOWN OF KEOTA, OKLAHOMA
JUNE 30, 2014

| | |
|--|-------|
| SCHEDULE 1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 35 |
| NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 36 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> | 37-38 |
| REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 | 39-41 |
| OTHER SUPPLEMENTARY INFORMATION: | |
| SUMMARY STATUS OF PRIOR YEAR AUDIT FINDINGS | 42-43 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 44-46 |

TOWN OF KEOTA, OKLAHOMA
LIST OF BOARD MEMBERS
JUNE 30, 2014

ELECTED OFFICIALS

| <u>NAME</u> | <u>POSITION</u> |
|----------------|-----------------|
| DOYE DUNKIN | MAYOR |
| KEITH LASHLEY | MEMBER |
| JACKIE LASHLEY | MEMBER |
| ROBERT UPDYKE | MEMBER |

TOWN CLERK & TREASURER

VICKIE REED

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Keota, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Keota, Oklahoma, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental & Business-Type Activities is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of Keota, Oklahoma, as of June 30, 2014, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Town. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide and assurance on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit*

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements of the Town of Keota, Oklahoma.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2014, on our consideration of the Town of Keota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Keota's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

November 18, 2014

TOWN OF KEOTA, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2014

| | Governmental Activities | Business-Type Activities | 2014 Total |
|--|----------------------------|-----------------------------|---------------------|
| <u>ASSETS</u> | | | |
| <u>Current Assets:</u> | | | |
| Cash and cash equivalents | \$ 9,723 | \$ 6,749 | \$ 16,472 |
| Accounts Receivable | - | - | - |
| Due from Other Funds | 5,674 | 4,841 | 10,515 |
| Total Current Assets | 15,397 | 11,590 | 26,987 |
| <u>Other Assets:</u> | | | |
| Cash and cash equivalents - Restricted | - | 77,234 | 77,234 |
| Total Other Assets | - | 77,234 | 77,234 |
| <u>Capital Assets:</u> | | | |
| Capital Assets, net of Accum. Depreciation | - | 5,085,964 | 5,085,964 |
| Total Capital Assets | - | 5,085,964 | 5,085,964 |
| TOTAL ASSETS | 15,397 | 5,174,788 | 5,190,186 |
| <u>LIABILITIES</u> | | | |
| <u>Current Liabilities:</u> | | | |
| Current Portion of Long-Term Debt | - | 36,386 | 36,386 |
| Due to Other Funds | 10,515 | - | 10,515 |
| Due to Depositors | - | 15,033 | 15,033 |
| Total Current Liabilities | 10,515 | 51,419 | 61,935 |
| <u>Long-Term Liabilities:</u> | | | |
| Capital Lease Obligations | - | - | - |
| Notes Payable | - | 2,211,711 | 2,211,711 |
| Less: Current Portion of Long-Term Debt | - | (36,386) | (36,386) |
| Total Long-Term Liabilities | - | 2,175,325 | 2,175,325 |
| TOTAL LIABILITIES | 10,515 | 2,226,744 | 2,237,260 |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | - | 2,874,253 | 2,874,253 |
| Restricted for: | | | - |
| Debt Service | - | 77,234 | 77,234 |
| Other Purposes | 7,263 | - | 7,263 |
| Unrestricted | (2,381) | (3,443) | (5,824) |
| TOTAL NET POSITION | \$ 4,882 | \$ 2,948,044 | \$ 2,952,926 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF KEOTA, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses)/ Revenue |
|--------------------------------|------------|-------------------------|--|--|-------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities: | | | | | |
| Current: | | | | | |
| General Government | \$ 53,774 | \$ - | \$ - | \$ - | \$ (53,774) |
| Public Safety | 96,881 | 61,894 | - | - | (34,987) |
| Highway & Streets | 35,281 | - | - | - | (35,281) |
| Capital Outlay | 23,549 | - | - | - | (23,549) |
| Total Governmental Activities | 209,485 | 61,894 | - | - | (147,592) |
| Business-type activities: | | | | | |
| Water | 150,845 | 135,047 | - | - | (15,798) |
| Sewer | 125,170 | 60,177 | - | 619,265 | 554,273 |
| Refuse | 23,539 | 30,090 | - | - | 6,551 |
| Other Business-type activities | - | 11,523 | - | - | 11,523 |
| Total Business-type Activities | 299,554 | 236,837 | - | 619,265 | 556,548 |
| Total | \$ 509,039 | \$ 298,731 | \$ - | \$ 619,265 | \$ 408,957 |

Changes in Net Position:

| | Governmental Activities | Business-Type Activities | Total |
|--------------------------------------|----------------------------|-----------------------------|---------------------|
| Net (expense)/revenue | \$ (147,592) | \$ 556,548 | \$ 408,957 |
| General revenues: | | | |
| Taxes: | | | |
| Sales Tax | 88,240 | - | 88,240 |
| Tobacco Tax | 1,056 | - | 1,056 |
| Franchise Tax | 11,413 | - | 11,413 |
| Intergovernmental: | | | |
| Alcoholic Beverage Tax | 9,373 | - | 9,373 |
| Gasoline Excise Tax | 1,035 | - | 1,035 |
| Motor Vehicle Tax | 4,385 | - | 4,385 |
| Royalty Income | 6 | - | 6 |
| Miscellaneous Income | 48,291 | - | 48,291 |
| Interest Income | 6 | 56 | 63 |
| Transfers - Internal Activity | (52,258) | 52,258 | - |
| Total general revenues & transfers | <u>111,548</u> | <u>52,314</u> | <u>163,862</u> |
| Changes in net position | <u>(36,043)</u> | <u>608,862</u> | <u>572,819</u> |
| Net position - beginning | 40,926 | 2,339,192 | 2,380,118 |
| Net position - prior year adjustment | - | (10) | (10) |
| Net position - ending | <u>\$ 4,882</u> | <u>\$ 2,948,044</u> | <u>\$ 2,952,926</u> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF KEOTA, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2014

| | General Fund | Street & Alley Fund | Other Governmental Funds | Total Governmental Funds |
|---|------------------------|---------------------------|--------------------------------|--------------------------------|
| <u>ASSETS</u> | | | | |
| Cash, including time deposits | \$ 8,135 | \$ 1,588 | \$ - | \$ 9,723 |
| Accounts Receivable | - | - | - | - |
| Due from other funds | - | 5,674 | - | 5,674 |
| TOTAL ASSETS | <u>\$ 8,135</u> | <u>\$ 7,263</u> | <u>\$ -</u> | <u>\$ 15,397</u> |
| <u>LIABILITIES & FUND EQUITY</u> | | | | |
| <u>LIABILITIES:</u> | | | | |
| Due to Other Funds | \$ 10,515 | \$ - | \$ - | \$ 10,515 |
| Due to Other Governments | - | - | - | - |
| Due to Employee | - | - | - | - |
| Payroll Taxes Payable | - | - | - | - |
| TOTAL LIABILITIES | <u>10,515</u> | <u>-</u> | <u>-</u> | <u>10,515</u> |
| <u>FUND BALANCES:</u> | | | | |
| Nonspendable | - | - | - | - |
| Restricted | - | 7,263 | - | 7,263 |
| Committed | - | - | - | - |
| Assigned | - | - | - | - |
| Unassigned | (2,381) | - | - | (2,381) |
| TOTAL FUND BALANCES | <u>(2,381)</u> | <u>7,263</u> | <u>-</u> | <u>4,882</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 8,135</u> | <u>\$ 7,263</u> | <u>\$ -</u> | |

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities of \$0, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds. -

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. -

Net Position of Governmental Activities **\$ 4,882**

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF KEOTA, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | General Fund | Street & Alley Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|---------------------------|--------------------------------|--------------------------------|
| <u>REVENUES:</u> | | | | |
| Taxes: | | | | |
| Sales Tax | \$ 88,240 | \$ - | \$ - | \$ 88,240 |
| Tobacco Tax | 1,056 | - | - | 1,056 |
| Franchise Tax | 11,413 | - | - | 11,413 |
| Intergovernmental: | | | | |
| Alcoholic Beverage Tax | 9,373 | - | - | 9,373 |
| Gasoline Excise Tax | - | 1,035 | - | 1,035 |
| Motor Vehicle Tax | - | 4,385 | - | 4,385 |
| Grants | - | - | - | - |
| Fines & Forfeitures | 61,894 | - | - | 61,894 |
| Royalty Income | 6 | - | - | 6 |
| Miscellaneous Income | 48,046 | 245 | - | 48,291 |
| Interest Income | 1 | 5 | - | 6 |
| TOTAL REVENUES | 220,030 | 5,670 | - | 225,700 |
| <u>EXPENDITURES:</u> | | | | |
| General Government | 53,774 | - | - | 53,774 |
| Public Safety | 96,881 | - | - | 96,881 |
| Highway & Streets | - | 35,281 | - | 35,281 |
| Capital Outlay | 22,980 | 569 | - | 23,549 |
| Debt Service | - | - | - | - |
| TOTAL EXPENDITURES | 173,636 | 35,850 | - | 209,485 |
| EXCESS OF REVENUES OVER (UNDER) | | | | |
| EXPENDITURES | 46,394 | (30,180) | - | 16,214 |
| <u>OTHER FINANCING SOURCES (USES):</u> | | | | |
| Operating Transfers In | 8,776 | 35,733 | - | 44,509 |
| Operating Transfers Out | (83,169) | (13,598) | - | (96,767) |
| Capital Debt Proceeds | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (74,393) | 22,136 | - | (52,258) |
| NET CHANGES IN FUND BALANCES | (27,999) | (8,044) | - | (36,043) |
| FUND BALANCE - BEGINNING OF YEAR | 25,618 | 15,307 | - | 40,926 |
| FUND BALANCE - PRIOR YEAR ADJUSTMENT | - | - | - | - |
| FUND BALANCE - END OF YEAR | \$ (2,381) | \$ 7,263 | \$ - | 4,882 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF KEOTA, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Reconciliation to Statement of Activities:

| | | |
|--|----|----------|
| Net change in fund balances - total governmental funds | \$ | (36,043) |
|--|----|----------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

| | | |
|--|--|---|
| Capital debt obligation principal payments | | - |
|--|--|---|

Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:

| | | |
|-----------------------|--|---|
| Capital Debt Proceeds | | - |
|-----------------------|--|---|

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

| | | |
|-------------------------------------|--|---|
| Capital asset purchases capitalized | | - |
| Depreciation expense | | - |

| | | |
|--|----|----------|
| | \$ | (36,043) |
|--|----|----------|

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF KEOTA, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2014

| | Keota Public Works Authority Enterprise Fund June 30, 2014 | Memo Only June 30, 2013 |
|---|---|----------------------------|
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash, including time deposits | \$ 6,749 | \$ 12,937 |
| Due from Other Funds | 4,841 | 4,841 |
| Total Current Assets | 11,590 | 17,778 |
| Noncurrent Assets: | | |
| Restricted cash, including time deposits | 77,234 | 83,380 |
| Capital assets, net of accumulated depreciation | 5,085,964 | 3,795,162 |
| Total Noncurrent Assets | 5,163,198 | 3,878,542 |
| TOTAL ASSETS | 5,174,788 | 3,896,320 |
| <u>LIABILITIES & FUND EQUITY</u> | | |
| Current Liabilities: | | |
| Current Portion of Long-Term Debt | 36,386 | 10,713 |
| Due to depositors | 15,033 | 16,403 |
| Total Current Liabilities | 51,419 | 27,116 |
| Noncurrent Liabilities: | | |
| Notes Payable | 2,211,711 | 1,540,726 |
| Less: Current Portion | (36,386) | (10,713) |
| Total Noncurrent Liabilities | 2,175,325 | 1,530,012 |
| TOTAL LIABILITIES | 2,226,744 | 1,557,129 |
| NET POSITION: | | |
| Net investment in capital assets | 2,874,253 | 2,254,437 |
| Restricted for debt service | 77,234 | 83,380 |
| Unrestricted | (3,443) | 1,375 |
| TOTAL NET POSITION | \$ 2,948,044 | \$ 2,339,192 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF KEOTA, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 - MODIFIED CASH BASIS -
 PROPRIETARY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | Keota Public Works Authority Enterprise Fund | |
|---|--|----------------------------|
| | June 30, 2014 | Memo Only June 30, 2013 |
| <u>OPERATING REVENUES:</u> | | |
| Water Revenue | \$ 135,047 | \$ 142,173 |
| Sewer Charges | 60,177 | 57,532 |
| Refuse Charge | 30,090 | 28,608 |
| Miscellaneous | 11,523 | 10,732 |
| TOTAL OPERATING REVENUES | 236,837 | 239,045 |
| <u>OPERATING EXPENSES:</u> | | |
| Current: | | |
| Water | 150,845 | 171,848 |
| Sewer | 60,980 | 36,660 |
| Refuse | 23,539 | 26,719 |
| Administrative & Other | - | - |
| TOTAL OPERATING EXPENSES | 235,364 | 235,227 |
| NET OPERATING INCOME (LOSS) | 1,473 | 3,819 |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest Income | 56 | 58 |
| Interest Expense | (64,190) | (33,300) |
| Grant Income | 619,265 | 407,630 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 555,132 | 374,388 |
| NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS | 556,605 | 378,207 |
| Transfers in | 59,503 | 66,563 |
| Transfers out | (7,245) | (735) |
| CHANGE IN NET POSITION | 608,862 | 444,036 |
| TOTAL NET POSITION - BEGINNING | 2,339,192 | 1,895,306 |
| TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT | (10) | (150) |
| TOTAL NET POSITION - ENDING | \$ 2,948,044 | \$ 2,339,192 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF KEOTA, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| | <u>June 30, 2014</u> | <u>Memo Only June 30, 2013</u> |
|---|----------------------|------------------------------------|
| <u>Cash Flows from Operating Activities:</u> | | |
| Receipts from Customers | \$ 236,837 | \$ 239,045 |
| Payments to Suppliers, Employees & Laborers | (235,364) | (235,227) |
| Receipts of Customer Utility Deposits, Net of Refunds | (1,370) | (1,273) |
| Net Cash Provided (Used) by Operating Activities | <u>103</u> | <u>2,546</u> |
| <u>Cash Flows from Non-Capital Financing Activities:</u> | | |
| Operating Transfers in | 59,503 | 66,563 |
| Operating Transfers Out | (7,245) | (735) |
| Net Cash Provided (Used) by Non-Capital Financing Activities | <u>52,258</u> | <u>65,829</u> |
| <u>Cash Flows from Capital & Related Financing Activities:</u> | | |
| Additions to Capital Assets | (1,290,802) | (1,161,797) |
| Grant Income | 619,265 | 407,630 |
| Loan Proceeds received | 690,264 | 933,736 |
| Principal paid | (19,278) | (182,158) |
| Interest paid | (64,190) | (33,300) |
| Net Cash Provided (Used) by Capital & Related Financing Activities | <u>(64,741)</u> | <u>(35,889)</u> |
| <u>Cash Flows from Investing Activities:</u> | | |
| Interest Earned | 56 | 58 |
| Net Cash Provided (Used) by Investing Activities | <u>56</u> | <u>58</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (12,324) | 32,544 |
| Cash & Cash Equivalents, Beginning of Year | 96,317 | 63,923 |
| Cash & Cash Equivalents, Prior Year Adjustment | (10) | (150) |
| Cash & Cash Equivalents, End of Year | <u>\$ 83,983</u> | <u>\$ 96,317</u> |
| <u>Reconciliation of operating income (loss) to net cash provided operating activities:</u> | | |
| Net Operating Income (Loss) | \$ 1,473 | \$ 3,819 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | |
| Depreciation Expense | - | - |
| (Increase)Decrease in Due from Other Funds | - | - |
| Increase(Decrease) in Payroll Taxes Payable | - | - |
| Increase(Decrease) in Due to Other Funds | - | - |
| Customer Deposits | (1,370) | (1,273) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 103</u> | <u>\$ 2,546</u> |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. REPORTING ENTITY

The Town's financial reporting entity is comprised of the following:

| | |
|--------------------------|--|
| Primary Government: | Town of Keota |
| Blended Component Units: | Keota Public Works Authority (KPWA) |

PRIMARY GOVERNMENT

The Town operates under the "Town board of Trustees" form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, education, public improvements, planning and zoning, and general administrative services.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the Town Council, and there is a financial benefit or burden relationship with the Town, or Town management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the Town; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the Town. The blended component unit's funds are blended into those of the Town by appropriate fund type to constitute the

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

primary government presentation. The Town's blended component unit is presented subsequently:

INCLUDED COMPONENT UNITS

Keota Public Works Authority

The Keota Public Works Authority (KPWA) is a public trust created under authority of and pursuant to the provision of Title 60, Oklahoma Statutes 1961 Section 176 to 180, on December 1, 1964, for the use and benefit of the Town of Keota, Oklahoma. The Trust has as its purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control and regulate utility facilities whether water, sewage, garbage, trash disposal recreation and industrial facilities, or other forms or types of public and municipal services within or without the corporate boundaries of the Town of Keota, Oklahoma.

The KPWA is empowered to lease, acquire or construct the properties necessary to provide and maintain these services. It is also empowered to obtain funds for these purposes and in so doing, to incur indebtedness whether unsecured or secured by all or any part of the Trust Estate and its revenues. The KPWA is also permitted to transfer monies to the Town of Keota for the use of the Town. The Board of Trustees of the Town of Keota acts as Board of Trustees of the KPWA.

In order to fulfill these functions, the KPWA has leased from the Town of Keota its sewer system, its rights to all improvements thereto, its rights to any and all municipal services and revenues therefrom.

Based on an overall evaluation of the foregoing criteria, the KPWA is included in this financial report.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

non-exchange revenues. Business-type activities are financed, in whole or in part, by fees charges to external parties for goods or services.

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three broad funds types and five generic fund categories as follows:

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue source (other than expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes.

| | |
|---------------------|---|
| Street & Alley Fund | Accounts for commercial vehicle and gasoline excise tax from county and state sources and 33% of the 3 cent sales tax collected for street construction, maintenance and repairs. |
|---------------------|---|

| | |
|------------|--|
| CDBG Grant | Accounts for receipt of grant funds from the OK Department of Commerce |
|------------|--|

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Debt Service Fund

The Debt Service Fund is used, in accordance with State law, to receive ad-valorem taxes assessed for the payment of maturing principal and interest on general obligation bonds or judgments.

PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise funds are used to account for the acquisition, operation and maintenance of Town facilities which are financed primarily by user charges. The Enterprise funds are accounted for similar to activities of the private sector. The measurement focus is upon determination of net income, financial position and changes in financial position. The Keota Public Works Authority is accounted for as the Town's Enterprise Fund.

Keota Public Works Authority - Accounts for the activities of the public trust in providing water and sewer services to the public.

FIDUCIARY FUND TYPES

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature and do not involve measurement of results of operations.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented used the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. FINANCIAL POSITION

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at yearend, if any, are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

CASH AND CASH EQUIVALENTS

For the purposes of the financial statements, "cash and cash equivalents" includes all demand and savings accounts, certificates of deposit, and open-ended mutual funds.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds that result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds". Short-term interfund loans are reported as "interfund receivables and payables". Long-term interfund loans (noncurrent portions) are reported as "advances from and to other funds". See Note 8 for details of interfund transactions, including receivables and payables at year-end.

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

ACCOUNTS RECEIVABLE

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

INVENTORIES

The Town records materials and supplies inventory as expenditures at the time the inventory is purchased; therefore, no inventory balances for materials and supplies not yet consumed are reported in the financial statements.

FIXED ASSETS

Expenditures for property and equipment of governmental funds and expendable trust funds are recorded as fund expenditures; however, no detail fixed asset records are maintained for such assets still in service.

Fixed assets acquired by the Enterprise Funds are not capitalized as property and equipment within the Funds. No detail fixed asset records are maintained for such assets still in service. Therefore, financial statements of the Enterprise Funds do not contain a provision for depreciation expense.

RESERVES

Reserves are recorded to signify that a portion of the fund equity is segregated from future use and is not available for appropriation or expenditure.

REVENUES, EXPENDITURES AND EXPENSES

Sales Tax

The Town presently levies a three-cent sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The sales tax received is recorded as sales tax revenue within the following funds:

- 2 cents General Fund
- 1 cent Street & Alley

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Of the two cents collected in the General Fund, one cent is required to be transferred to the Keota Public Works Authority in accordance with Ordinance No. 97-1 approved by the voters on April 1, 1997, for the purpose of sanitary Sewer Department Involvement and operation.

Property Tax

For the year ended June 30, 2014, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on generally obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

| | |
|-------------------------|--|
| Governmental Fund Types | By Character: Current (further classified by activity) |
|-------------------------|--|

| | |
|------------------------|--------------------------------|
| Proprietary Fund Types | By Operating and Non-Operating |
|------------------------|--------------------------------|

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

Interfund Transfers

During the course of normal operations, the Town has transactions between funds including expenditures and transfers of resources to provide services, purchase assets and service debt. Transactions which are normal and recurring between funds are recorded as operating transfers. Transfers of equity between funds (residual equity transfers) are recorded as a change in fund balance.

Accumulated Vacation and Sick Leave

Under Town personnel policies, Town employees are granted vacation and sick leave in varying amounts as approved by the board. In the event of termination, an employee will receive any compensatory time accumulated.

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

| <u>Major Special Revenue Fund</u> | <u>Revenue Source</u> |
|-----------------------------------|---|
| Street & Alley Fund | Commercial Vehicle Tax Gasoline Excise Tax |

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

MEMORANDUM TOTALS

The "memorandum only" captions mean that totals are presented for overview information purposes only.

NOTE 2 - BUDGETARY ACCOUNTING AND CONTROL

The Town uses the following procedures in establishing the budgetary data reflected in the financial statements:

- a) The mayor submits to the Town Council a proposed operating budget. The operating budget includes proposed expenditures and the means of financing them.
- b) Public hearings are conducted by the Town to obtain taxpayer comments.
- c) The Town Council adopts the budget.
- d) The City Clerk, with approval, is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
- e) The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Revenues shall be classified separately by source. Expenditures shall be departmentalized within each fund and shall be classified into at least the following accounts: Personal services, Materials and supplies, Other services and charges, Capital outlays, and Debt service.

By law, unencumbered appropriations lapse after September 30 following the end of the fiscal year; therefore, claims on such appropriations may be paid until that time.

NOTE 3 - DEPOSITS, INVESTMENTS AND COLLATERAL

Custodial Credit Risk

At June 30, 2014, the Town held deposits of approximately \$93,706 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

or collateralized with securities held by the District or by its agent in the Town's name.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - COMPENSATED ABSENCES

It is the Town's policy to permit employees to accumulate earned but unused vacation benefits for one year. The cost of the compensated absences is recognized when payments are made to the employees due to the modified cash basis of accounting. Therefore no long-term liability has been recorded.

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 - RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) require the Authority to set aside into a Reserve Account the sum of the annual installment for each loan (\$17,808, \$1,980, \$11,964 & \$5,208), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval.

The new loan agreement with the USDA requires the Authority to set aside into a Reserve Account the sum of 10% of the monthly installment or \$544.10 each month until there is accumulated in that account the sum of the annual installment (\$65,292), after which deposits may be suspended, except to replace withdrawals. As of June 30, 2014, the Town was required to have at least \$2,176.40 set aside in the reserve account for the new loan; as of that date no deposits have been put into the reserve account for the new loan, which does not comply with the covenants of the loan agreement.

Components of Restricted Assets

| | Enterprise Fund | | | | |
|------------------------------|------------------|------------------|-------------------|----------------------|-----------|
| | Reserve Funds | Project Funds | Grant Accounts | Customer Deposits | Total |
| Cash and cash equivalents | \$ 43,604 | \$ 1 | \$ 12,578 | \$ 21,051 | \$ 77,234 |

NOTE 6 - VOLUNTEER FIREFIGHTERS PENSION FUND

The Town volunteer firemen participate only in the Oklahoma State Firefighters Pension and Retirement System which is a defined contributions plan applying only to the Town's volunteer firefighters. Eligibility to participate includes all full-time or voluntary firefighters or a participating municipality if they are hired before age 45. The State Statute gives the authority to establish contribution obligations and benefits. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. The eligibility and benefits for distribution for volunteer firemen is 20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.

Contributions are made by the Town at the rate of \$60 per volunteer firefighter per year. A contribution for was not made for 2013/2014.

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 - LONG-TERM DEBT

GOVERNMENT FUND DEBT

LEASE PURCHASE OBLIGATIONS:

| <u>Terms and Collateral</u> | <u>Outstanding Debt June 30, 2014</u> |
|-----------------------------|---|
|-----------------------------|---|

Lease purchase obligation due First National Bank of Poteau. 5.99% interest with 60 monthly lease payments of \$520.90 due September 2017, secured by 2012 Ford Interceptor. Scheduled debt service payments in the General Fund. \$17,914.02

Lease purchase obligation due Oklahoma State Bank of Vinita. 3.32% interest with 60 monthly lease payments of \$456.45 due April 2019, secured by 2013 Ford Interceptor. Schedule debt service payments in the General Fund. 24,224.37

Total Lease Purchases Outstanding \$42,138.39

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2014:

| | <u>Balance 7/1/2013</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance 6/30/2014</u> |
|---------------------|-----------------------------|------------------|-------------------|------------------------------|
| Capital Lease - FNB | \$ 22,946 | \$ - | \$ (5,032) | \$ 17,914 |
| Capital Lease - OSB | \$ - | \$ 25,000 | \$ (776) | \$ 24,224 |
| | <u>\$ 22,946</u> | <u>\$ 25,000</u> | <u>\$ (5,808)</u> | <u>\$ 42,138</u> |

A summary of future maturities of principal and interest are as follows:

| <u>Year Ending June 30,</u> | <u>Capital Lease - FNB Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|--|-----------------|------------------|
| 2015 | \$ 5,323 | \$ 928 | \$ 6,251 |
| 2016 | 5,651 | 600 | 6,251 |
| 2017 | 5,999 | 252 | 6,251 |
| 2018 | 942 | 26 | 968 |
| 2019 | - | - | - |
| 2020-2024 | - | - | - |
| Total | <u>\$ 17,914</u> | <u>\$ 1,807</u> | <u>\$ 19,721</u> |

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

| Year Ending June 30, | Capital Lease - OSB | | Total |
|-------------------------|---------------------|-----------------|------------------|
| | Principal | Interest | |
| 2015 | \$ 4,745 | \$ 732 | \$ 5,477 |
| 2016 | 4,905 | 573 | 5,477 |
| 2017 | 5,070 | 407 | 5,477 |
| 2018 | 5,241 | 236 | 5,477 |
| 2019 | 4,263 | 62 | 4,325 |
| 2020-2024 | - | - | - |
| Total | <u>\$ 24,224</u> | <u>\$ 2,011</u> | <u>\$ 26,235</u> |

KEOTA PUBLIC WORKS AUTHORITY

NOTES PAYABLE:

Terms and Collateral

Outstanding Debt
June 30, 2014

Promissory Note to the Rural Utilities Service in the Amount \$326,800 with an interest only payment on February 4, 2000 and monthly payments of principal and interest (4.50%) of \$1,484 starting March 4, 2000 and due February 4, 2040. The note is secured by sewer system revenue and in part by a one cent sales tax collected in accordance with ordinance 97-1 for sewer improvements. Scheduled debt service payments in the Public Works Authority.

\$ 261,758.27

Note due to Rural Development in the amount of \$35,000 with a fixed interest rate of 4.75% with 480 monthly payments of principal and interest of \$165 starting March 2002 and due March 2042. The note is for the purpose of providing loan funds for a portion of the cost of acquiring and constructing the Keota community facility.

29,495.40

Note due to Rural Development in the amount of \$234,000 with a fixed interest rate of 4.125% with 480 monthly payments of principal and interest of \$997 starting July 2008 and due July 2048. The note is for the purpose of providing loan funds for a portion of the cost of a sewer improvement project. As of June 30, 2009, all loan proceeds have been received.

215,909.20

Note due to Rural Development in the amount of \$98,000 with a fixed interest rate of 4.375% with 480 monthly payments of principal and interest of \$434 starting July 2008 and due March 2048. The note is for the purpose of providing loan funds for a portion of the cost of a sewer improvement project. As of June 30, 2008, all loan

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

proceeds have been received.

89,109.45

Note due to Rural Development in the amount of \$1,624,000 with a fixed interest rate of 2.50% with an interest only payment due February 20, 2014 and monthly payments of principal and interest of \$5,441 starting March 20, 2014 and due February 20, 2053. The note is for the purpose of providing loan funds for a portion of the cost of water system improvement project. As of June 30, 2014, all loan proceeds have been received.

1,615,438.84

Total Notes Payable Outstanding

\$2,211,711.16

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2014:

| | 7/1/2013 | Additions | Deductions | 6/30/2014 |
|--------------------------|---------------------|-------------------|--------------------|---------------------|
| Note Payable - RD #92-03 | \$ 267,642 | \$ - | \$ (5,884) | \$ 261,758 |
| Note Payable - RD #97-05 | 30,060 | - | (564) | 29,495 |
| Note Payable - RD #92-06 | 218,899 | - | (2,990) | 215,909 |
| Note Payable - RD #92-08 | 90,388 | - | (1,279) | 89,109 |
| Note Payable - RD #91-11 | 933,736 | 690,264 | (8,561) | 1,615,439 |
| | <u>\$ 1,540,726</u> | <u>\$ 690,264</u> | <u>\$ (19,278)</u> | <u>\$ 2,211,711</u> |

A summary of future maturities of principal and interest are as follows:

| Year Ending | Notes Payable - RD #92-03 | | |
|-------------|---------------------------|-------------------|-------------------|
| June 30, | Principal | Interest | Total |
| 2015 | \$ 6,155 | \$ 11,653 | \$ 17,808 |
| 2016 | 6,438 | 11,370 | 17,808 |
| 2017 | 6,734 | 11,074 | 17,808 |
| 2018 | 7,043 | 10,765 | 17,808 |
| 2019 | 7,366 | 10,442 | 17,808 |
| 2020-2024 | 42,230 | 46,810 | 89,040 |
| 2025-2029 | 52,863 | 36,177 | 89,040 |
| 2030-2034 | 66,151 | 22,889 | 89,040 |
| 2035-2039 | 66,779 | 6,544 | 73,322 |
| Total | <u>\$ 261,758</u> | <u>\$ 167,724</u> | <u>\$ 429,482</u> |

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

| Year Ending June 30, | Notes Payable - RD #97-05 | | |
|-------------------------|---------------------------|------------------|------------------|
| | Principal | Interest | Total |
| 2015 | \$ 592 | \$ 1,388 | \$ 1,980 |
| 2016 | 620 | 1,360 | 1,980 |
| 2017 | 651 | 1,329 | 1,980 |
| 2018 | 682 | 1,298 | 1,980 |
| 2019 | 715 | 1,265 | 1,980 |
| 2020-2024 | 4,133 | 5,767 | 9,900 |
| 2025-2029 | 5,238 | 4,662 | 9,900 |
| 2030-2034 | 6,639 | 3,261 | 9,900 |
| 2035-2039 | 8,415 | 1,485 | 9,900 |
| 2040 | 1,810 | 44 | 1,855 |
| Total | <u>\$ 29,495</u> | <u>\$ 21,860</u> | <u>\$ 51,355</u> |

| Year Ending June 30, | Notes Payable - RD #92-06 | | |
|-------------------------|---------------------------|-------------------|-------------------|
| | Principal | Interest | Total |
| 2015 | \$ 3,116 | \$ 8,848 | \$ 11,964 |
| 2016 | 3,247 | 8,717 | 11,964 |
| 2017 | 3,384 | 8,580 | 11,964 |
| 2018 | 3,526 | 8,438 | 11,964 |
| 2019 | 3,674 | 8,290 | 11,964 |
| 2020-2024 | 20,823 | 38,997 | 59,820 |
| 2025-2029 | 25,583 | 34,237 | 59,820 |
| 2030-2034 | 31,432 | 28,388 | 59,820 |
| 2035-2039 | 38,618 | 21,202 | 59,820 |
| 2040-2044 | 47,448 | 12,372 | 59,820 |
| 2045-2048 | 35,057 | 2,369 | 37,426 |
| Total | <u>\$ 215,909</u> | <u>\$ 180,437</u> | <u>\$ 396,346</u> |

| Year Ending June 30, | Notes Payable - RD #92-08 | | |
|-------------------------|---------------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2015 | \$ 1,330 | \$ 3,878 | \$ 5,208 |
| 2016 | 1,390 | 3,818 | 5,208 |
| 2017 | 1,451 | 3,757 | 5,208 |
| 2018 | 1,516 | 3,692 | 5,208 |
| 2019 | 1,583 | 3,625 | 5,208 |
| 2020-2024 | 9,037 | 17,003 | 26,040 |
| 2025-2029 | 11,234 | 14,806 | 26,040 |
| 2030-2034 | 13,964 | 12,076 | 26,040 |
| 2035-2039 | 17,358 | 8,682 | 26,040 |
| 2040-2044 | 21,577 | 4,463 | 26,040 |
| 2045-2046 | 8,668 | 391 | 9,059 |
| Total | <u>\$ 89,109</u> | <u>\$ 76,190</u> | <u>\$ 165,299</u> |

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

| Year Ending June 30, | Notes Payable - RD #91-11 | | |
|-------------------------|---------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2015 | \$ 25,193 | \$ 40,099 | \$ 65,292 |
| 2016 | 25,831 | 39,461 | 65,292 |
| 2017 | 26,484 | 38,808 | 65,292 |
| 2018 | 27,153 | 38,139 | 65,292 |
| 2019 | 27,840 | 37,452 | 65,292 |
| 2020-2024 | 150,124 | 176,336 | 326,460 |
| 2025-2029 | 170,091 | 156,369 | 326,460 |
| 2030-2034 | 192,713 | 133,747 | 326,460 |
| 2035-2039 | 218,344 | 108,116 | 326,460 |
| 2040-2044 | 247,384 | 79,076 | 326,460 |
| 2045-2049 | 280,286 | 46,174 | 326,460 |
| 2050-2054 | 223,996 | 10,437 | 234,433 |
| Total | <u>\$ 1,615,439</u> | <u>\$ 904,214</u> | <u>\$ 2,519,653</u> |

NOTE 8 - FUND EQUITY

Government-Wide Financial Statements

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

Restricted Amounts are described in Note 5 above.

Governmental Fund Balances

Town of Keota
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2014

| | General Fund | Street & Alley Fund | Other Governmental Funds | Total Governmental Funds |
|------------------|-------------------|------------------------|--------------------------------|--------------------------------|
| FUND BALANCES: | | | | |
| Restricted for: | | | | |
| Road Maintenance | - | 7,263 | - | 7,263 |
| Unassigned | (2,381) | - | - | (2,381) |
| Total | <u>\$ (2,381)</u> | <u>\$ 7,263</u> | <u>\$ -</u> | <u>\$ 4,882</u> |

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Grant Programs

Town participates in the certain federal and state grant programs as available, currently the town is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the Town that the amount, if any, would not be significant.

Litigation

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

Commitments

At June 30, 2014, the Town had an unrecorded commitment for earned but unused vacation and compensatory time leave benefits that would require payment upon employee termination of service.

NOTE 10 - PRIOR YEAR ADJUSTMENT

For fiscal year ending June 30, 2014, the prior year adjustments were to remove old outstanding checks and deposits from the books.

TOWN OF KEOTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through November 18, 2014, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2014.

TOWN OF KEOTA, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

| Federal Grantor/ Program Title | Federal CFDA No. | Award Amount | Federal Expenditures |
|--|-----------------------------|----------------------------|---------------------------------|
| <u>USDA Rural Development:</u> | | | |
| Loans: | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | \$ 1,624,000 | \$ 690,264 |
| Grants: | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | 1,283,200 | 606,687 |
| <u>Department of Energy:</u> | | | |
| Pass-Through Program From: | | | |
| Oklahoma Department of Commerce | | | |
| ARRA Energy Efficiency and Conservation Block Grant | 81.128 | 33,600 | 12,578 |
| Total | | <u>\$ 2,940,800</u> | <u>\$ 1,309,529</u> |

**TOWN OF KEOTA, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014**

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the Town of Keota, Oklahoma (the "Town").

The Town's reporting entity is defined in Note 1 to the Town's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is present using the modified cash basis of accounting, which is described in Note 1 to the Town's basic financial statements.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards revenues are reported in the Town's basic financial statements as follows:

| <u>Federal Sources</u> | |
|------------------------|----------------------------|
| General | <u>\$ 1,309,529</u> |
| Total | <u><u>\$ 1,309,529</u></u> |

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with generally accepted accounting principles.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Town Council
Town of Keota, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Keota, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Keota, Oklahoma's basic financial statements, and have issued our report thereon dated November 18, 2014, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Keota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Keota's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Keota's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 14-01 and 14-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Keota's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards, which is included in the Schedule of Findings as Item 14-03. The results of our tests disclosed no instances of other matters that are required to be reported under Government Auditing Standards.

Town of Keota's Response to Findings

Town of Keota's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Keota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

November 18, 2014

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Town Council
Town of Keota, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Town of Keota, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Keota, Oklahoma's major federal programs for the year ended June 30, 2014. The Town of Keota, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Keota, Oklahoma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and in accordance with Oklahoma Statutes. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Keota, Oklahoma's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Town of Keota, Oklahoma's compliance.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

Opinion on Each Major Federal Program

In our opinion, the Town of Keota, Oklahoma complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Town of Keota, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Keota, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Keota, Oklahoma's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

results of that testing based on the requirements of OMB Circular A-133.
Accordingly, this report is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

November 18, 2014

TOWN OF KEOTA, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2014

INTERNAL CONTROL FINDINGS:

Item 13-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the Town.

Response: The Board continues to be actively involved in the operations

Corrective Action Plan: The Board is actively involved in the operations.

Current Status: This finding will always exist because of the size of the Town.

Item 13-02: Meter Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The City does not keep a ledger regarding the balance of customer meter deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

TOWN OF KEOTA, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2014

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The Town is aware of the problem and has already taken steps to correct the situation.

Corrective Action Plan: The Town is working to correct this problem.

Current Status: This finding still exists because of the amount of time and resources necessary to correct it.

COMPLIANCE FINDINGS:

None

TOWN OF KEOTA, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue: Qualified

Internal control over financial reporting:

Material weaknesses identified? _____yes ☒no

Significant deficiencies identified
that are not considered to be material
weaknesses? ☒yes _____none reported

Noncompliance material to financial
statements noted? _____yes ☒no

Federal Awards

Internal control over major programs:

Material weaknesses identified? _____yes ☒no

Significant deficiencies identified
that are not considered to be
material weaknesses? _____yes ☒none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
section 510(a) of Circular A-133? _____yes ☒no

Identification of major programs:

#10.760 Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between
type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒yes _____no

SECTION II - FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROL FINDINGS:

Item 14-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

TOWN OF KEOTA, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the Town.

Response: The Board continues to be actively involved in the operations

Corrective Action Plan: The Board is actively involved in the operations.

Item 14-02: Meter Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The City does not keep a ledger regarding the balance of customer meter deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The Town is aware of the problem and has already taken steps to correct the situation.

Corrective Action Plan: The Town is working to correct this problem.

COMPLIANCE FINDINGS:

Item 14-03: Reserve Requirements

Criteria: The loan agreements with the United States Department of Agriculture Rural Development (USDA) require the Authority to set aside into a Reserve Account the sum of 10% of the monthly installments until there is accumulated in the account the sum of the annual installment for each loan (\$17,808, \$1,980 \$11,964, \$5,208 & \$65,292), after which deposits may be suspended, except to replace withdrawals.

TOWN OF KEOTA, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Condition: The Authority did not make monthly deposits into the reserve accounts to cover the new loan agreement only the existing loans.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreements.

Recommendation: The Authority should make the required monthly payments.

Response: The Authority is aware of the problem, however, funding was not available to make the required deposits.

Corrective Action Plan: The financial situation has changed and the deposits will now be able to be made.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None